Feed the Future Country Fact Sheet

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New Loan Products Help Dairy Farmers Scale Up

The dairy sector currently accounts for eight percent of Kenya's gross domestic product (GDP). With 1.5 million smallholder farmers producing milk, dairy has the potential to greatly contribute to economic growth and job creation. With technical assistance provided by USAID, Kenya's financial institutions are gradually starting to lend into the sector, supporting the needs of farmers and entrepreneurs who were once excluded from commercial finance.

USAID assists a wide range of financial institutions in the dairy sector from the largest banks to the smallest microfinance institutions. USAID's most successful partnership is with Kenya Commercial Bank (KCB), the largest bank by assets. Over the past 18 months, USAID developed KCB's agriculture strategy and is now helping the bank to operationalize the dairy component.

After training a total of 64 bank employees—branch managers and business bankers—USAID supported KCB with the rollout and testing of two new products across 32 branches spread throughout rural areas. The two products are a dairy herd improvement loan and the other an asset finance loan.

In Kiambu on the outskirts of Nairobi, a KCB branch is entirely focused on dairy herd improvement loans—what their clients want. "We call it the *ngombe* loan, or dairy herd loan," explains K. K. Kariuki, a loan officer at the Kiambu branch. According to Kariuki, dairy farming only becomes profitable once a farmer is able to maintain a herd of six or more cows. The ngombe loan allows smallholder farmers the opportunity to achieve that scale.

Kariuki, who started out at KCB in a back office job doing credit analysis, thrives on the fieldwork required by value chain lending. "A typical day for me starts in the office, when one or more farmers come in to sign their loan agreements. Then it is out to the field. I might visit a milk collection center to verify how much milk a loan applicant is selling, or I might visit a loan recipient to confirm that he has purchased his new cows."

After six months, Kariuki manages a portfolio of 30 dairy loans valued at $290,000. Approximately $9 million dairy loans have been issued since January 2012 across the 32 KCB branches in the dairy sector. KCB's success has encouraged other financial institutions to begin lending into the sector, creating a positive demonstration effect.

"For us at KCB—a large and conservative bank—lending into agriculture at the smallholder level and to others in the value chain that are not corporates was a major shift in thinking for us. Doing so would not have been possible without USAID's research, product development and the training it provided us," states Wilfred Musau, KCB's director of retail banking. "USAID's approach to financing value chains helped us to better understand and mitigate risks, thereby creating the conditions to receive important board approvals to enter agriculture finance for the smallholder farmer."

Enthusiasm for value chain lending is clearly on the rise in the Kenyan financial sector; but in a country where land ownership is often poorly documented, lending to smallholder farmers without solid collateral is still a risky business. USAID's Development Credit Authority (DCA) backs loans to smallholder farmers with guarantees. Since 2011, USAID has mobilized $110 million in lending to Kenyan microenterprises with DCA guarantees.

This approach of training lenders and providing guarantees grows out of the U.S. global hunger and food security initiative, known as Feed the Future. Feed the Future seeks to address the root causes of hunger and poverty and to create conditions where food aid is no longer necessary. USAID's Kenya Mission seeks to raise 502,000 people out of poverty through inclusive agriculture-led economic growth over a five year period. Inclusive growth requires making sure that Kenya's smallholder farmers, who comprise 70 percent of the workforce, have the knowledge, the inputs, and the access to finance necessary to move from subsistence farming to profitability.

Kenya's dairy sector is a model of how the government's policies, regulation and oversight can make a rapid impact in food and nutrition security. Kenya's new dairy regulations and the development of the Dairy Code of Practice manuals and the Good Manufacturing Practice (adopted by the Kenya Board of Standards) ensures that Kenyan consumers can purchase dairy products that are both nutritious and safe.

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